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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark one)
__X__ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 5, 1992

OR

_____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 0-15997

FileNet Corporation
(Exact name of registrant as specified in its charter)

Delaware — 95-3757942
(State or other jurisdiction of incorporation or organization) — (IRS Employer Identification Number)

3565 Harbor Boulevard, Costa Mesa, California 92626
(Address of principal executive office) (Zip Code)

(714)966-3400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes __X__ No _____

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes _____ No _____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of May 12, 1992 there were 10,505,396 shares of common stock outstanding

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FileNet Corporation

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

FILENET CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	April 5, 1992 (unaudited)	December 31, 1991 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,147	$ 12,714
Marketable securities	27,143	20,067
Accounts receivable, net	34,848	33,587
Inventories	10,056	8,383
Prepaid expenses	2,349	1,538
Total current assets	77,543	76,289
Property and equipment, at cost	40,815	38,539
Less accumulated depreciation and amortization	(21,993)	(20,718)
Net property and equipment	18,822	17,821
Other assets:		
Capitalized software, net	8,090	7,881
Other	2,661	1,771
Total other assets	10,751	9,652
Total assets	$107,116	$103,762
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,026	$ 5,429
Accrued liabilities:		
Compensation	3,010	4,382
Income taxes payable	1,381	1,712
Other	7,078	8,430
Due to bank	2,934	3,386
Current portion of long-term debt	161	230
Total current liabilities	23,390	23,569
Capital lease obligation	176	211
Deferred income taxes	1,743	1,743
Stockholders' equity:		
Preferred stock - $.10 par value; authorized, 7,000,000 shares; none issued and outstanding		
Common stock - $.01 par value; authorized, 25,000,000 shares; issued and outstanding 10,498,676 and 10,308,201 shares at April 5, 1992 and December 31, 1991, respectively	69,585	68,027
Retained earnings	12,222	10,212
Total stockholders' equity	81,807	78,239
Total liabilities and stockholders' equity	$107,116	$103,762

The accompanying notes to consolidated financial statements.

FILENET CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)

	Fiscal quarter ended April 5, 1992	March 31 1991
Revenue:		
Sales	$ 24,106	$ 19,289
Service and other revenue	10,616	7,857
Total revenue	34,722	27,146
Costs and expenses:		
Cost of sales	7,796	6,459
Cost of service and other revenue	8,709	5,984
Research and development	3,251	2,552
Selling, general and administrative	11,992	9,884
Other income - net	(269)	(193)
Total costs and expenses	31,479	24,686
Income before income taxes	3,243	2,460
Provision for income taxes	1,233	856
Net income	$ 2,010	$ 1,604
Net income per share	$ 0.18	$ 0.15
Weighted average common and common equivalent shares outstanding	11,299	10,496

See accompanying notes to consolidated financial statements.

FILENET CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Fiscal quarter ended April 5, 1992	Fiscal quarter ended March 31, 1991
Cash flows from operating activities:		
Net income	$ 2,010	$ 1,604
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,925	1,849
Provision for losses on accounts receivable	62	49
Changes in operating assets and liabilities:		
Accounts receivable	(1,323)	1,690
Inventories	(1,673)	1,018
Prepaid expenses	(811)	(838)
Other assets	(891)	4
Accounts payable	2,597	(1,017)
Accrued liabilities:		
Compensation	(1,372)	798
Income taxes payable	(331)	0
Other	(552)	(2,136)
Total adjustments	(2,369)	1,417
Net cash from (used by) operating activities	(359)	3,021
Cash flows from investing activities:		
Capital expenditures	(2,275)	(1,197)
Capitalized software	(859)	(988)
Purchases of marketable securities-net	(7,076)	(5,270)
Net cash used by investing activities	(10,210)	(7,455)
Cash flows from financing activities:		
Principal payments under capital lease obligations	(104)	(52)
Payments on line of credit	(452)	(713)
Proceeds from issuance of common stock-net	1,558	268
Net cash from (used by) financing activities	1,002	(497)
Net decrease in cash	(9,567)	(4,391)
Cash and cash equivalents, beginning of year	12,714	8,250
Cash and cash equivalents, end of period	$ 3,147	$ 3,319
Supplemental cash flow information:		
Interest paid	$ 90	$ 148
Income taxes paid	$ 1,564	$ 636

See accompanying notes to consolidated financial statements.

FileNet Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. In the opinion of management of FileNet Corporation ("the Company"), the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company at April 5, 1992 and the results of its operations for the fiscal quarter ended April 5, 1992 and March 31, 1991, respectively and its cash flows for the fiscal quarter ended April 5, 1992 and March 31, 1991, respectively. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission, although the Company believes that the disclosures in the consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K, for the fiscal year ended December 31, 1991.

2. Net income per share is computed using the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares consist of stock options.

3. Inventories are summarized as follows:

	April 5, 1992 (in thousands)	December 31, 1991 (in thousands)
Raw materials	$ 3,024	$ 3,354
Work-in-process	2,863	1,785
Finished goods	4,169	3,244
	$10,056	$ 8,383

4. Standby letters of credit issued on the Company's behalf at April 5, 1992 totaled $177,500.

5. Export sales to customers located in Europe for the fiscal quarter ended April 5, 1992 and March 31, 1991 were $7,122,000 and $4,150,800, respectively. Export sales for customers in other geographic locations for the fiscal quarter ended April 5, 1992 and March 31, 1991 were $2,015,800 and $258,700, respectively.

6. Other income consists primarily of interest income net of interest expense.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The Company's operating results are subject to significant quarterly fluctuations due to a combination of the worldwide economic environment, the high average sales price of the Company's systems, a relatively long sales cycle, the varied number of system shipments in any particular quarter, the absence of a significant backlog, seasonality of individual customer buying patterns and variations in the mix of sales by distribution channel or product type.

Total revenue of $34,722,000 for the fiscal quarter ended April 5, 1992 increased 27.9% over the comparable period in 1991, the result of additional product sales (25%) and increased service and other revenue (35%). International sales increased 99% and domestic sales increased 25%, offsetting a 58% decrease in sales of the Company's OSAR libraries to original equipment manufacturers. The increase in service and other revenue is the result of continued growth in the domestic and European installed base of systems serviced by the Company combined with increases in training and consulting revenue.

Cost of sales as a percentage of sales was 32.3% for the fiscal quarter ended April 5, 1992 compared to 33.5% for the comparable period in 1991. Cost of sales as a percentage of sales decreased during the period due to a more favorable product mix (3.1%), the result of a higher percentage of system sales versus add-on sales, a higher content of higher margin software and a smaller percentage of lower margin OSAR sales, offset by increases in warranty and other reserves (1.9%). Cost of sales included $650,000 and $469,000 of software amortization expense for the fiscal quarter ended April 5, 1992 and March 31, 1991, respectively. For the fiscal quarter ended April 5, 1992 the cost of service and other revenue increased as a percent of service and other revenue to 82.0% from 76.2% for the comparable period in 1991. The increase is primarily due to higher mix of lower margin consulting support revenue, continued start-up expenses in the Company's U.K. subsidiary's service and support organization, geographical expansion of our German subsidiary's service and support function and longer warranty periods now being offered.

Research and development expenses of $3,251,400 for the fiscal quarter ended April 5, 1992 increased 27.4% over the comparable period in 1991. As a percentage of revenue, research and development expenses were unchanged at 9.4% from the comparable fiscal quarter in 1991. During the fiscal quarter ending April 5, 1992, the Company capitalized $859,000 of software development costs, compared to $988,000 for the comparable period in 1991. The Company currently anticipates it will capitalize approximately $3,800,000 of software development costs for the year ending January 3, 1993 compared to $3,601,000 for the year ended December 31, 1991.

Selling, general and administrative expenses increased by 21.3% for the fiscal quarter ended April 5, 1992 over the comparable period in 1991. The increase was primarily due to expansion of the Company's direct domestic and international sales and marketing efforts. As a percentage of revenue, selling, general and administrative expenses were 34.5% and 36.4% for the fiscal quarters ended April 5, 1992 and March 31, 1991, respectively.

Other income, net of other expenses, increased 39.2% for the fiscal quarter ended April 5, 1992 over the comparable period in 1991 due primarily to additional interest income.

The effective tax rate for the fiscal quarter ended April 5, 1992 increased to 38.0% from 34.8% for the comparable period in 1991. The effective rate in 1991 was lower due to tax credits and utilization of subsidiary net operating loss carryforwards.

Net income for the fiscal quarter ended April 5, 1992 increased by 25.3% to $2,010,000 compared to $1,604,000 for the comparable period in 1991 due to the reasons previously mentioned.

Liquidity and Capital Resources

Working capital increased by $1,433,000 from December 31, 1991. Changes in the components of working capital included increases in accounts receivable of $1,261,000, inventories of $1,673,000, prepaid expenses of $811,000, accounts payable of $2,597,000, and decreases in cash and cash equivalents and marketable securities of $2,491,000 and accrued liabilities of $2,255,000. The Company anticipates capital expenditures for the fiscal quarter ending July 5, 1992 to be approximately $3,500,000.

The Company has available with a commercial bank an unsecured line of credit of $20,000,000 for working capital needs. This line of credit expires in April 1993, and is subject to the fulfillment of certain financial covenants. The Company also has several foreign borrowing arrangements which expire at various times throughout 1992 and pursuant to which the Company may borrow up to approximately $2,000,000. As of April 5, 1992, borrowings were $2,934,000.

The Company believes its existing working capital and borrowing capacity (including the lines of credit), coupled with funds generated from the Company's operations, will be sufficient to fund its presently anticipated cash requirements throughout 1992.

Part II. OTHER INFORMATION

Item 5. New Products

On May 4, 1992 the Company announced the following new products:

1. A new server, called the Series 5000, featuring the Motorola 68040 processor. One version of this product, a multiple server configuration, is available for shipment now and a single server version is expected to be available for shipment in the third quarter of 1992.

2. A new server called the Series 6000, featuring RISC technology from IBM and AIX 6000® Version 3.2., IBM's implementation of the UNIX® operating system. These products are expected to be available for shipment in the 4th calendar quarter of 1992.

3. A new version of the Company's Image Management Software including Oracle Corporation's latest database software, Version 6 and a new version of FileNet's Computer Output to Laser Disk software (COLD™ 2). These products will be delivered in connection with the Series 6000 server.

4. A new release of the Company's Workforce DeskTop™ and Workshop™ software products adding new features and functionality. This new software is expected to be available in the third calendar quarter of 1992.

In connection with the product line identified in paragraph 2 above, the Company secured a non-exclusive license from Mentat Inc. concerning the software employed and modified by the Company in such product line, and an agreement with IBM for the purchase of IBM products by the Company for incorporation into this product line. These agreements have been filed by the Company on May 5, 1992 with the Form 8 amending the Company's Form 10-K for the fiscal year ended December 31, 1991.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits: None.

(b) Reports on Form 8-K

On February 14, 1992 the Company filed Form 8-K to report a change in fiscal year. Pursuant to the new fiscal year, accounting periods will end exclusively on the Sunday following the thirteenth week of each calendar quarter. Each fiscal year will have 52 weeks with the exception of leap years which will have 53 weeks. Fiscal year 1992 began on January 1, 1992 and will end on Sunday, January 3, 1993. Quarter end dates for fiscal year 1992 will be: April 5, 1992, July 5, 1992, October 4, 1992 and January 3, 1993.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FILENET CORPORATION
(Registrant)

Date May 14, 1992

Mark S. St. Clare
Chief Financial Officer
and Sr. Vice President, Finance